

EXAMINATION REPORT
of
VSBA WORKERS' COMP GROUP
CHARLOTTESVILLE, VIRGINIA
as of
DECEMBER 31, 2008

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of VSBA Workers' Comp Group as of December 31, 2008, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 10th day of February, 2010

A handwritten signature in cursive script that reads 'Alfred W. Gross'.

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 10, 2009

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of:

VSBA WORKERS' COMP GROUP

Charlottesville, Virginia

hereinafter referred to as the Association, has been completed. The report is hereby submitted for your consideration.

DESCRIPTION

The Association is a group self-insurance association licensed to provide workers' compensation coverage and employers' liability coverage to its members pursuant to Section 65.2-802 of the Code of Virginia and 14 VAC 5-370-10 et seq. (Rules Governing Group Self-Insurers of Liability Under the Virginia Workers' Compensation Act) promulgated by the State Corporation Commission (the "Commission").

The Association was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008.

HISTORY

The Association was licensed by the Bureau effective July 1, 1996. The Association's membership consists of local public school boards of the Commonwealth of Virginia. According to its by-laws, the Association was formed to provide members the opportunity to self-insure and pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act.

MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by members of the Association. The by-laws provide for no less than three nor more than seven Board members, of which three-fourths must be currently elected or appointed to a member's governing body. Former elected or appointed officials of a member's governing body may be a Board member and one Board member may be a Division Superintendent of Schools. Each Board member shall serve a term of three years or until the members elect a successor. The President, President-Elect, and the Executive Director of the Virginia School Boards Association ("VSBA"), or the Executive Director's designee, shall serve as ex-officio Board members with voting power and shall be included in the determination of a quorum per the revised by-laws.

The Board and officers were as follows at December 31, 2008:

Board

<u>Representative</u>	<u>Affiliation</u>
Scott T. Albrecht	Manassas City Schools Manassas, Virginia
F. Acie Allen, Jr.	Buckingham County Schools Buckingham, Virginia
Warren Jeff Bain, Ex-officio Member	President-Elect VSBA Pulaski, Virginia
Frank E. Barham, Ex-officio Member	Executive Director VSBA Charlottesville, Virginia
Billy W. Brooks	Washington County Schools Bristol, Virginia
Russell W. Dove	Prince Edward County Schools Rice, Virginia
Roy G. Geiger	New Kent County Schools New Kent, Virginia

Stuart F. Gibson, Ex-officio Member	President VSBA Portsmouth, Virginia
Richard W. Layman	King & Queen County Schools King & Queen, Virginia
Shirley A. LeVines	Fluvanna County Schools Palmyra, Virginia
James R. Ruhland	(Retired) Botetourt County Schools Troutville, Virginia
David F. Sulzen	Floyd County Schools Floyd, Virginia

Officers

Billy W. Brooks	Chairman
Jean H. Shackelford	Vice-Chairman

TERRITORY AND PLAN OF OPERATION

The operation of the Association is confined to Virginia where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association is available to local public school boards of the Commonwealth of Virginia, subject to approval of the Association's Board, the Bureau, and the Association's excess insurance carrier.

All members are required to enter into an indemnity agreement in which each member jointly and severally agrees to assume and discharge members' employers' liabilities and any and all members' liabilities covered under the Virginia Workers' Compensation Act.

ADMINISTRATIVE AGREEMENT

Effective July 1, 2006, the Association entered into an administrative agreement with VSBA. The initial term of the agreement is ten years and the agreement shall automatically renew thereafter on a yearly basis until terminated by either party upon six months written notice.

According to this agreement, VSBA shall administer and manage the affairs of the Association in accordance with the policies adopted and established from time to time by the Board. Additionally, VSBA shall advise the Board on policy matters, ensure that all provisions of the Board's contracts for services are met, establish and maintain a resident address for the Association, set up policies and maintain a set of books, bill and collect all sums due the Association and pay all items of expense. Further, VSBA shall assist in securing specific and aggregate excess insurance, contracts for claims handling and loss control services and coordinate annual member payroll audits. For the above services, VSBA shall receive 6% of all members' contributions to the Association. Total administrative fees expense for the calendar year 2008 was \$183,220. Additionally, VSBA may retain any commission received for placement of excess insurance coverage from the excess insurance carrier for all years covered under this agreement.

CLAIMS SERVICE AGREEMENT

Effective July 1, 2007, the Association entered into a claims service agreement with Wells Fargo Disability Management ("Wells Fargo") formally known as Acordia Employers Service. The initial term of the agreement is for a three year period and thereafter the agreement may be renewed for additional one-year periods by agreement of the parties. This agreement may be terminated by either party upon 60 days written notice prior to the anniversary or 90 days written notice at any time.

Under the terms of the agreement, Wells Fargo shall examine, evaluate and process claims occurring during the contract period until their conclusion, provide prompt payment of benefits and expenses, act as the liaison with the Virginia Workers' Compensation Commission, consult with and assist in the selection of attorneys, establish reserves, provide standard reports and monitor claims for potential subrogation. For the above services, Wells Fargo shall be compensated 4% of the annual earned premium plus allocated expenses, including nurse case management expenses and expenses incurred for claims meetings with the Association. Total claims service agent fee expense for calendar year 2008 was \$123,524.

FIDELITY BOND COVERAGE

At December 31, 2008, the Association was listed as a named insured on a fidelity bond with a \$250,000 limit of liability, subject to a \$250 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2008, the Association had securities with a par value of \$260,850 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific excess and aggregate excess insurance agreements in force at December 31, 2008, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$400,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	175% of the manual premium, subject to a minimum retention of \$6,132,016	\$1,000,000

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2006 through December 31, 2008. Assets were verified and liabilities were established at December 31, 2008. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the principles of the risk-based examination approach contained in the NAIC Financial Condition Examiners Handbook. Analytical review procedures were applied to non-material items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Management and Control
Territory and Plan of Operation
Administrative Agreement
Claims Service Agreement
Fidelity Bond Coverage
Special Reserves and Deposits
Excess Insurance Coverage
Financial Statements

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2008, a statement of income for the year ended December 31, 2008, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date, and a statement of Examiners' changes in members' equity.

BALANCE SHEET
DECEMBER 31, 2008

ASSETS

Bonds, short-term	\$256,594
Other invested assets	5,850
Cash on deposit	5,745,340
Premiums receivable	22,167
Interest due and accrued	4,641
Amounts recoverable on paid losses	26,831
Prepaid excess insurance	175,328
Prepaid service fee	30,472
Prepaid other	<u>20,663</u>
 Total assets	 <u><u>\$6,287,886</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$3,018,150
Loss adjustment expenses unpaid	358,802
Contingency reserve	603,424
Unearned premiums	1,504,324
Excess insurance premiums payable	3,705
Premium refunds payable	30,716
Administrative fees payable	94,500
Service agent's fees payable	2,115
Taxes, licenses and fees payable	73,096
Other expenses payable	0
Accounting fees payable	12,500
Actuary fees payable	2,250
Payroll audit fees payable	<u>1,900</u>
 Total liabilities	 <u><u>\$5,705,482</u></u>
 Restricted members' equity	 \$262,445
Unrestricted members' equity	<u>319,959</u>
 Total liabilities and members' equity	 <u><u>\$6,287,886</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2008

UNDERWRITING INCOME

Premiums earned	<u>\$2,739,636</u>
Deductions:	
Losses incurred	\$1,488,087
Loss expenses incurred	437,662
Other underwriting expenses incurred	485,550
Contingency reserve	<u>91,967</u>
Total underwriting deductions	<u>\$2,503,266</u>
Net underwriting gain	<u>\$236,370</u>

INVESTMENT INCOME

Net investment income earned	\$100,958
Net realized capital gains	<u>411</u>
Net investment gain	<u>\$101,369</u>
Net income	<u><u>\$337,739</u></u>

RECONCILIATION OF MEMBERS' EQUITY

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Members' equity, previous year before undistributed dividends	* (\$352,379)	(\$186,548)	\$246,320
Adjustments for previous examination changes	260,590		
Net income or (loss)	(94,887)	432,391	337,739
Net unrealized capital gains or (losses)	<u>128</u>	<u>477</u>	<u>(1,655)</u>
Restricted and unrestricted members' equity, end of year	(186,548)	246,320	582,404
Less: Restricted members' equity, end of year	<u>254,523</u>	<u>255,000</u>	<u>262,445</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$441,071)	(\$8,680)	\$319,959
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted members' equity, end of year	<u><u>(\$441,071)</u></u>	<u><u>(\$8,680)</u></u>	<u><u>\$319,959</u></u>

* Adjusted members' equity from previous examination

MEMBERS' ACCOUNT BY FISCAL YEAR INCEPTION TO DATE DECEMBER 31, 2008

	All Other Fiscal Year Preceding 1996-2005	Third Fiscal Year Preceding 2005/2006	Second Fiscal Year Preceding 2006/2007	First Fiscal Year Preceding 2007/2008	Partial Current Fiscal Year 7/1/08-12/31/08	Total Inception to Date 1996-2008
<u>Income Received</u>						
Premiums written	\$11,150,494	\$1,880,822	\$2,527,979	\$3,074,317	\$3,034,843	\$21,668,455
Less: Excess insurance	1,063,169	260,700	287,783	348,426	357,915	2,317,993
Net premiums written	\$10,087,325	\$1,620,122	\$2,240,196	\$2,725,891	\$2,676,928	\$19,350,462
Investment income	590,727	79,170	98,880	58,649	109,116	936,542
Allocation between years	26,132	11,167	15,972	34,253	(87,524)	0
Other	0	0	0	1,259	(1,993)	(734)
Total income collected	\$10,704,184	\$1,710,459	\$2,355,048	\$2,820,052	\$2,696,527	\$20,286,270
<u>Less: Expenses Paid</u>						
Losses paid (less recoveries)	\$6,673,122	\$655,287	\$833,616	\$832,754	\$117,990	\$9,112,769
Allocated loss adjustment expense	1,243,893	138,525	246,265	127,272	12,384	1,768,339
Administrative fees	870,701	72,781	150,220	180,031	0	1,273,733
Service agent's fees	474,960	88,878	96,189	120,518	92,216	872,761
Taxes, licenses and fees	240,523	40,830	44,889	26,370	0	352,612
Other expenses	582,938	55,617	100,046	(23,941)	53,788	768,448
Total expenses	\$10,086,137	\$1,051,918	\$1,471,225	\$1,263,004	\$276,378	\$14,148,662
Net cash income	\$618,047	\$658,541	\$883,823	\$1,557,048	\$2,420,149	\$6,137,608
<u>Add: Receivables</u>						
Premiums receivable	\$0	\$0	\$0	\$0	\$22,167	\$22,167
Interest due and accrued	1,111	475	679	1,457	918	4,640
Recoverable on paid losses	26,831	0	0	0	0	26,831
Other	0	0	0	0	226,463	226,463
Total	\$27,942	\$475	\$679	\$1,457	\$249,548	\$280,101
<u>Deduct: Liabilities</u>						
Losses unpaid	\$764,208	\$151,111	\$455,314	\$942,618	\$704,899	\$3,018,150
Loss adjustment expenses	84,764	25,987	78,844	103,373	65,834	358,802
Contingency reserve	334,269	56,425	75,107	91,350	46,273	603,424
Unearned premiums	0	0	0	0	1,504,324	1,504,324
Excess insurance payable	0	0	0	3,705	0	3,705
Premium refunds payable	0	0	0	15,550	15,166	30,716
Administrative fees payable	0	0	0	2,669	91,831	94,500
Service agent's fees payable	0	0	0	1,282	833	2,115
Taxes, licenses and fees payable	0	0	0	36,548	36,548	73,096
Other expenses payable	0	0	0	0	16,650	16,650
Total	\$1,183,241	\$233,523	\$609,265	\$1,197,095	\$2,482,358	\$5,705,482

MEMBERS' ACCOUNT BY FISCAL YEAR INCEPTION TO DATE DECEMBER 31, 2008

	All Other Fiscal Year Preceding 1996-2005	Third Fiscal Year Preceding 2005/2006	Second Fiscal Year Preceding 2006/2007	First Fiscal Year Preceding 2007/2008	Partial Current Fiscal Year 7/1/08-12/31/08	Total Inception to Date 1996-2008
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	(\$537,252)	\$425,493	\$275,237	\$361,410	\$187,339	\$712,227
Less: Dividends paid inception to date by fiscal year	129,823	0	0	0	0	129,823
Less: Restricted Members' Equity by fiscal year	52,489	52,489	52,489	52,489	52,489	262,445
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted Members' Equity 12/31/2008	<u>(\$719,564)</u>	<u>\$373,004</u>	<u>\$222,748</u>	<u>\$308,921</u>	<u>\$134,850</u>	<u>\$319,959</u>

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2008

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$25,000	\$22,167	(\$2,833)
Amounts recoverable on paid losses	17,517	26,831	9,314
Prepaid excess insurance	178,958	175,328	(3,630)
<u>Liabilities:</u>			
Losses unpaid	\$2,990,200	\$3,018,150	(\$27,950)
Loss adjustment expenses unpaid	218,038	358,802	(140,764)
Unearned premiums	1,517,422	1,504,324	13,098
Premium refunds payable	15,550	30,716	(15,166)
Administrative fees payable	95,214	94,500	714
Service agent's fees payable	1,282	2,115	(833)
Other expenses payable	833	0	833
Examiners changes in members' equity			<u>(\$167,217)</u>
Restricted and unrestricted members' equity per Association			\$749,621
Restricted and unrestricted members' equity per Examiners			<u>582,404</u>
Decrease in restricted and unrestricted members' equity			<u>(\$167,217)</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 2000/2001, 2001/2002, 2003/2004 and 2004/2005 fiscal years of \$480,485, \$787,331, \$545,967 and \$343,540 respectively. The Board is reminded of its responsibility to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.
2. The Association's by-laws state that there shall be three to seven Board members. At December 31, 2008, the Association had 12 representatives on the Board. Additionally, the by-laws state that the Vice-Chairman shall be elected from among the Board members. At December 31, 2008, the Vice-Chairman was not a member of the Association's Board. It is recommended that the Association either elect the number of Board members authorized by the by-laws or amend the by-laws. Further, officers of the Association should be elected in accordance with the by-laws.

Accounts and Records

3. A review of the Association's reporting of losses and allocated loss adjustment expenses paid on the Members' Account by Fiscal Year Statement ("MABFY") in the 2008 Annual Statement revealed that the Association incorrectly stated the respective fiscal year balances in comparison to the service agent's December 31, 2008 loss reports. The incorrect balance are the result of: 1) the balances for allocated loss adjustment expense paid and unpaid were reported on a calendar year basis instead of the June 30th fiscal year basis utilized by the Association and 2) the service agent's loss report used for reporting paid losses and loss adjustment expenses in the 2008 Annual Statement omitted claims experience from new members that joined the Association for the 2007/2008 and 2008/2009 fiscal years. As part of this examination, the Examiners restated the MABFY to reflect paid losses and loss adjustment expenses on a fiscal year basis. It is recommended that the Association review and reconcile paid losses and loss adjustment expenses from its service agent's loss reports and accurately complete the MABFY and all supporting schedules in future statement filings with the Bureau.

4. <u>Premiums receivable</u>	<u>\$22,167</u>
<u>Premium refunds payable</u>	<u>\$30,716</u>

The above amounts have been decreased \$2,833 and increased \$15,166, respectively. The Examiners' amounts are based on subsequent 2008/2009 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid, prorated for the period July 1, 2008 through December 31, 2008.

5. <u>Amounts recoverable on paid losses</u>	<u>\$26,831</u>
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The above asset is \$9,314 more than the amount reported by the Association in its 2008 Annual Statement. The increase is a result of the Examiners' review of excess claims, net of recoverable payments, received from the Association's excess insurer at December 31, 2008. It was determined that the Association miscalculated this amount and reported it in the wrong fiscal year on the MABFY. This is the second consecutive examination in which a similar recommendation was included. It is recommended that the Association fully review and properly report amounts recoverable on paid losses in future Annual Statement filings with the Bureau.

6. <u>Prepaid excess insurance</u>	<u>\$175,328</u>
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The above asset is \$3,630 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects the unused portion of the Association's excess insurance premiums paid in 2008, but applicable to the policy period ending June 30, 2009 based on subsequent 2008/2009 fiscal year member payroll audits.

7. <u>Losses unpaid</u>	<u>\$3,018,150</u>
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The above liability is \$27,950 more than the amount reported by the Association in its 2008 Annual Statement. The increase in losses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1997/1998	\$ 4,552	\$ 32,502	\$ 27,950

The Examiners' increase results from a development of losses paid and reserve changes occurring during the period January 1, 2009 through September 30, 2009, on claims incurred December 31, 2008 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in all future filings with the Bureau.

8. Loss adjustment expenses unpaid \$358,802

The above liability is \$140,764 more than the amount reported by the Association in its 2008 Annual Statement. The change by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase/Decrease</u>
1997/1998	\$ 1,851	\$ 3,351	\$ 1,500
1999/2000	186	669	483
2000/2001	4,162	8,983	4,821
2001/2002	10,976	10,297	(679)
2002/2003	781	0	(781)
2003/2004	15,996	46,769	30,773
2004/2005	11,909	14,695	2,786
2005/2006	13,385	25,987	12,602
2006/2007	29,574	78,844	49,270
2007/2008	28,327	103,373	75,046
7/1/08 to 12/31/08	100,891	65,834	<u>(35,057)</u>
Total change			<u>\$140,764</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserves changes occurring during the period January 1, 2009 through September 30, 2009, on claims incurred December 31, 2008 and prior. The reported balances per Examiners are inclusive of the corrections made as a result of the issues noted in Recommendation for Corrective Action #3. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in all future filings with the Bureau.

9. Unearned premiums \$1,504,324

The above liability is \$13,098 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2008, less the amount earned at December 31, 2008 based on subsequent 2008/2009 fiscal year member payroll audits.

10. Administrative fees payable \$94,500

The above liability is \$714 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects administrative fees owed at December 31, 2008 based on the Examiners' analysis of subsequent 2008/2009 fiscal year member payroll audits, less the amounts paid at December 31, 2008. Additionally, the balance included \$2,669 for the settlement of the 2007/2008 fiscal year administrative fees owed.

11. Service agent's fees payable \$2,115

The above liability is \$833 more than the amount reported by the Association in its 2008 Annual Statement. The increase is the result of the Examiners reclassifying an invoice paid in 2009 for service agent's fees pertaining to 2008 that was originally reported as Other expenses payable.

12. Other expenses payable \$0

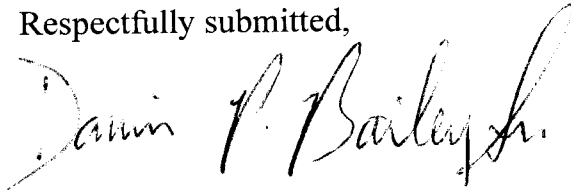
The above liability is \$833 less than the amount reported by the Association in its 2008 Annual Statement. The decrease is the result of the Examiners reclassifying an invoice for service agent's fees that should be reported as Service agent's fees payable.

CONCLUSION

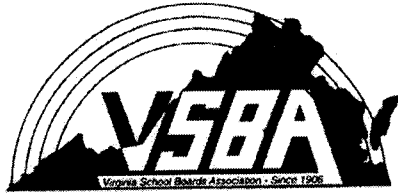
The courteous cooperation extended by the Association's administrator and service agent during the course of the examination is gratefully acknowledged.

In addition to the undersigned, George E. Morgan, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrin P. Bailey Sr." The signature is written in a cursive style with a large, sweeping initial 'D'.

Darrin P. Bailey Sr., CFE, MHP
Senior Insurance Examiner



Virginia School Boards Association
"Children Are Our Common Wealth"

STATE CORPORATION COMMISSION
BUREAU OF INSURANCE
10 JAN 25 AM 9:45

January 21, 2010

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: VSBA Workers' Comp Group
Examination Report as of December 31, 2008

Dear Mr. Smith:

We have received and reviewed the above referenced report.

Regarding the Recommendations for Corrective Action on pages 14-17, the following is offered:

1. We acknowledge that there are deficits in unrestricted members' equity for the fiscal periods 2000/2001, 2001/2002, 2003/2004 and 2004/05. At this time, we recommend taking no action on these years as they are still relatively new and will be subject to loss development and future investment income allocations.

Additionally, the fiscal periods 2000/2001, 2003/2004 and 2004/05 have improved based on our June 30, 2009 financial statement and the Association has an overall surplus of \$2,229,154.

2. At the November 18, 2009 meeting, the Supervisory Board revised the by-laws to reflect twelve members.

In the future every effort will be made to ensure Supervisory Board officers are elected in accordance with the by-laws.

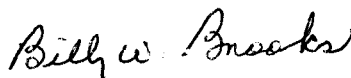
3. In the future we will make every effort to ensure that the balances for allocated loss expense paid and unpaid are reported using the June 30th fiscal year.

We have worked with our service agent to ensure that loss reports will include data for all members.

Further, we will make every effort to review and reconcile paid losses and loss adjustment expenses from our service agent's loss reports and accurately complete the Members' Account by Fiscal Year Statement (MABFY).

4. This adjustment is based on year-end payroll audits that were conducted after the Annual Statement was filed. Adjustments of this nature will always occur.
5. The manner in which the Association calculates and reports amounts recoverable on paid losses on the MABFY has been adjusted. We feel that this will correct discrepancies in the future.
6. This adjustment is based on year-end payroll audits that were conducted after the Annual Statement was filed. Adjustments of this nature will always occur.
7. The Association will review its methodologies to ensure sufficient loss reserves are established in the future. It should be noted that the discrepancy between the Association's and the Examiner's calculations of losses unpaid is less than 1%.
8. The Association will review its methodologies to ensure sufficient loss adjustment expenses are established in the future. This includes, but is not limited to, the actions we have outlined in response #3.
9. This adjustment is based on year-end payroll audits that were conducted after the Annual Statement was filed. Adjustments of this nature will always occur.
10. The Association acknowledges this recommendation.
11. The Association acknowledges this recommendation.
12. The Association acknowledges this recommendation.

Respectfully submitted,



Billy W. Brooks, Chairman
Members' Supervisory Board
VSBA Workers' Comp Group